



Office of Enterprise Risk Management
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February 15, 2011

AGENDA ITEM 3a

TO: MEMBERS OF THE AD HOC RISK MANAGEMENT COMMITTEE

- I. SUBJECT:** Office of Enterprise Risk Management – Action Plan Update
- II. PROGRAM:** Enterprise
- III. RECOMMENDATION:** Information
- IV. ANALYSIS:**

The Governance Risk Management Initiative Kickoff Plan (Plan) approved by the Board of Administration (Board) in October 2010, is substantially complete. All of the Plan components are complete or were initiated and “on track” for completion as scheduled. This Plan (Attachment 1) demonstrates how the newly created Office of Enterprise Risk Management (OERM) will become operational and outlines some milestones in implementing a risk intelligent enterprise management policy. Key parts of the Plan include:

- Establishing the OERM
- Operationalizing Risk Intelligence Activities
- Implementing Change Management Strategies
- Determining the Synergies with Other Functions

Since the last report to the Ad Hoc Risk Management Committee, the OERM has made significant progress in executing the Plan.

- On January 5, 2011, the OERM held a Black Swan Workshop for Executive Staff to identify emerging issues and examine the corresponding risks to CalPERS goals and objectives. Several issues were identified, and the OERM is currently developing decision trees and scenario analyses. These tools will help shed light on future risk exposures, and will assist Executive Staff in developing proactive mitigation strategies.

- The OERM has also begun to work in collaboration with the External Affairs Branch (Branch) on a stakeholder relations risk assessment. This assessment will help the Branch identify key stakeholders and reputation drivers, and will also identify risk metrics and tolerances that CalPERS must watch in order to become more nimble, responsive, and to operate more effectively.
- A structured approach to identifying and assessing enterprise risk was developed using a comprehensive taxonomy. The risks are included in the taxonomy and grouped by these five categories; Strategic, Operational, Financial/Reporting, Ethics/Legal/Compliance, and Investments. The risks are also grouped into sub-categories. Assessment of the risk will be tied to key indicators and sources of data to determine whether the risk is within established parameters, without unwanted variability.
- Finally, a recruitment bulletin for the Chief Risk Officer position was issued on December 1, 2010 and the final filing date was January 14, 2011. Interviews are currently underway.

These items represent only a portion of the work completed on the Plan. A comprehensive update on the status of all steps of the Plan is included as Attachment 2.

CalPERS Enterprise Risk Management Program includes two phases. Phase I, the assessment phase, was completed on time and under budget. Phase II, the implementation phase, is underway and “on track”. Going forward, new funds will be required to implement the recommendations. The total cost of implementing the Program is outlined in Attachment 3.

As work continues on the action Plan, additional risk assessments and increased coordination of enterprise oversight activities will provide management with better decision-making capabilities and promote a more risk-intelligent CalPERS culture.

V. STRATEGIC PLAN:

This recommendation supports Goal II of the Strategic Plan. CalPERS is committed to fostering “a work environment that values quality, respect, diversity, integrity, openness, communication, and accountability.”

Members of the Ad Hoc Risk Management Committee
February 15, 2011

VI. RESULTS/COSTS:

A cost summary has been provided in Attachment 3.

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Attachments